

How to get help from outside professionals

Auditors, lawyers, and management consultants can provide cost-effective services and expertise you can't yet afford to maintain in-house.

Starting your own high-tech business is exciting, but you are always resource-limited. Outside professionals like auditors, lawyers, and consultants can provide services you need and expertise you can't afford to maintain in-house. In this segment of Business Engineering, I describe what these outside professionals can do for you, what constitutes a professional relationship, and how you can derive the greatest benefit without running up a big bill. I also discuss directors, even though they're substantively and legally insiders, because some of the general comments about outside professionals also apply to them.

The first principle is to select people in whom you have trust and confidence. In all cases, go with the best. Choose professionals who have helped clients with needs similar to yours. Talk with those clients and make sure they were happy with the results. Then, once you've selected your outside professionals, work with them more or less as you would with your employees (see *Laser Focus World*, Nov. 1995, p. 59). It's all too easy to treat them as external, temporary help. But every human being responds to warmth, trust, care, and long-term relationships.

Your outside professionals will be more strongly motivated if they feel involved and responsible, and they'll be better equipped to help you if they understand your business. First you have to learn what they do, how they work, and what to expect of them. Then you have to provide them with the big picture as well as the details about your business. In most cases, you can trust them with proprietary information. They have a legal obligation

to you as a client, and those who don't handle themselves properly won't last in their profession.

As a practical matter, the more you take care of their well being, the more likely they can afford to give you their attention and loyalty. Of course, you can't make the same demands on them as on your full-time employees, but neither do you have the same commitment and fixed costs. Human relationships always get back to the principle of reciprocity — give to get — which is basic to success in any business.

necessary to gain a level of confidence in your operations in order to vouch for you. They'll check your accounting and control procedures, spot check your inventory count, look at your cash flow to see if you're solvent, talk to employees to verify the status of the company, and ask you to represent to them that what you told them is truthful. To the degree that they question your integrity or sense anything that resembles dishonesty, they'll apply more due diligence — at your expense.

Good auditors can tell you a lot about your business because they know

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Working with your auditor

Your accounting firm not only helps with accounting-related issues but also provides credibility. For example, when you apply for a loan, your banker takes comfort in knowing that a trustworthy outsider has verified your numbers. The same goes for the IRS and your investors.

Your accounting firm faces the tension of serving two masters, you and the outside world. Your auditors resolve that conflict by operating totally within professional guidelines. For example, they will help you avoid overpaying your taxes, but they will never participate in tax evasion. Their starting point is to serve your needs. Knowing philosophically how far you want to push the boundary, they can apply the rules and regulations to help you achieve what you want to do.

Think of your auditors as representatives of the government and of outside shareholders. They'll do whatever's

how to interpret the numbers. They also have access to many accounting and operational details you probably don't dwell on. Because of their experience and their outsider's perspective, they can draw useful inferences about what's going on, what your options are, and what needs to get done. Together with your lawyers, they can help you develop a strategy that's consistent with your goals and with what the system will allow you to do. Most big accounting firms now also offer consulting services to help you tie together loose ends. They have expertise in information systems, materials planning procedures, and even manufacturing processes.

My preference is definitely to go for one of the Big Six accounting firms. In addition to giving you more credibility, they can introduce you to valuable contacts and help you recruit key personnel. They have a network of accounting and finance professionals from client firms, and they also have a natural flow

of people who leave to get jobs in industry after becoming CPAs (certified public accountants).

Big accounting firms are not necessarily impersonal because you'll work with individuals assigned to your account. You and your colleagues can foster the bond by establishing relationships both at the top and at the working level. Most big firms grow their business by incubating relationships with small growing companies. They don't necessarily charge higher fees than small firms, even though their hourly rates are higher. They charge a small fraction of their normal fee initially, and they're usually willing to negotiate a fixed annual fee. Whomever you choose, you can keep your fees low by preparing all your tax schedules in house and, in the long run, by keeping your procedures simple and straightforward.

Lawyers

To develop a plan for executing your long-term strategy, you need not only accounting, financial, and tax expertise, but also legal expertise. Legal professionals play an extremely important role because they help business function smoothly. The legal system is logical, and lawyers know the rules.

Some of the rules are hard and fast; others are subject to interpretation. A good lawyer knows how far to push without getting you into trouble. At New Focus, we use the best law firm in the San Francisco Bay Area; our lawyer was selected as one of the 20 best lawyers in California. Here again, you are dealing with individuals. Pick a lawyer who makes you feel comfortable and who explains complex issues in language you understand.

My comments in favor of big accounting firms apply here as well. Big firms charge higher hourly rates than small firms. But when the issues are complex, you'll save money if the documents are "already in the word processor," and that's more likely to happen in big firms. Big firms are also more likely to take a longer-term view on fees, knowing significant profits will come from handling major corporate issues such as going public.

Management consultants

Consultants can provide expertise that you need only occasionally. They can

take on projects that require senior executives you don't have on board. An outsider can also act as an impartial third party to help you resolve conflicts. Working with management consultants is very different from working with technical consultants, however. Management consultants are often more expensive by at least a factor of two. And since management problems and the data required to solve them cannot be well defined, you can't assume management consultants will reduce your work load. In fact, they'll usually create work for you and your staff because they need support.

You'll want to select a consultant with care, making sure that the one you pick has had a successful career and experience relevant to your needs. A good consultant will tell you the pros and cons of your approach and recommend alternatives, rather than making problems more complicated. Do your best to define the project and find a consultant particularly skilled at it. Avoid surprises by asking for a cost estimate before the work begins.

Bankers

Your banker can provide money, service, and an introduction to other professionals, but don't expect a loan if your business can't justify the risk. Bankers are conservative because banking is a low-margin, highly regulated business. Even so, business decisions are always somewhat subjective. Keep your banker informed of good news and bad news so a trusting relationship can develop over time.

You may deal with several banks, each of which specializes in a particular service. For example, the bank that lends money to your business may not be efficient at international transactions. For borrowing, you pick a banker more than a bank. Find someone with lending authority who understands the problems you face as an entrepreneur, someone who relates to you as an individual and is willing to go to bat for you. Develop a relationship with that person and be prepared to follow him or her to another bank if necessary.

Board of Directors

Advice and guidance from your directors can have a big impact on your company. Over time, the directors will become an invaluable sounding board

as they develop an intuitive understanding of your business and your people. So let's consider in some detail the role of the board of directors, how to select them, and how to work with them.

The board represents the minority shareholders and looks after their interests. The board has two major responsibilities: to hire and fire the chief executive and to make sure the company is solvent. Their approach is generally to install a management team they have confidence in, then to make sure the company has a viable strategy and adequate resources to execute it. A professional board will not meddle in the operations but will challenge the management and act as mentors. They will review your operating results personally and also rely on independent findings of your lawyers and auditors. Board actions are required for any decisions that may have a significant impact on company assets, such as selling stock or issuing stock options, committing to a major building lease, and changing executive compensation.

In putting together the board, select outside people who have confidence in you and can help you move forward vigorously. Choosing friends who know you well can be helpful, so long as the working relationship remains professional when it comes to hard decisions. It's wrong to staff your board with the intention or expectation of protecting your interests over those of minority shareholders. In the beginning, you can keep the board small, perhaps two outsiders plus yourself, so decisions can be made quickly. Later on, you can add directors to augment the skills of the board as the business grows or becomes more complex.

It's well understood that you should have diversity on the board. People tend to favor directors with a big reputation, and that often means executives from big companies. Make sure you pick people, who have some appreciation for operating a small company and who can give you quality time when you need it. People without entrepreneurial experience often can't identify with you or understand the problems all start-up companies face.

Because the board positions are so important, reserve them for people whom you can't engage in any other way. Most directors serve because they want to be helpful and to broaden their experience; rarely do they work for the

modest fees or stock options. Most directors, however, want D&O (directors and officers) insurance coverage absolving them of liability for company debts, especially when the company plans to go public.

A personal note

It's great to have a mentor to provide ongoing counsel and advice in your business ventures. This kind of wonderful relationship can stem from true friendship and caring. But studies have

shown that most such relationships break up in four to five years, usually with bitter feelings. How can that be? My own view is that such relationships can also stem from the need to control and feel superior. As one learns from the mentor, dependence evolves into independence, and the original needs can no longer be satisfied.

In business, as in life, we are constantly entering into relationships. Because our expectations for a relationship often become a self-fulfilling

prophecy, blind faith works well most of the time. By and large, people behave consistently, in accordance with their own subjective logic. You can avoid surprises if you learn something about the experiences of the people you choose as your mentors and seek to form a self-consistent picture of why they are entering this relationship with you. "Trust until untrustworthy" is how I work with people, and that works most of the time. To succeed in any venture, you'll need to hone your people skills. □